

Income Tax Act

employees in cash the amount is turned over to a trustee to be held for each employee until he retires. These funds held by the trustee are then invested with a view to earning income. Accordingly each year the trustee for the plan makes an allocation in favour of each employee who is a member of the plan. These allocations are made up of the employee's share of the contributions on account of the profits made by the employer plus the earnings of the accumulated fund to the credit of the employer in the hands of the trustee.

As the law stands at present employees are subject to income tax on these allocations each year even though they may not receive these allocations in cash until many years later. Of course, the proceeds from the plan are not taxed when actually received if they have been taxed each year as they were allocated. This requirement that the tax must be paid each year on amounts allocated but not actually received is, we are told, discouraging participation in profit sharing plans. If so it stands in the way of achieving the full social benefit to be derived from having employees share in the prosperity of the enterprise which provides their employment. Moreover, if employees are discouraged from participating in deferred plans they will probably save less to provide for their years of retirement.

The proposed legislation will provide for tax deferral for those plans that elect to come under these new provisions. This means that amounts allocated by the trustee shall not be included in the income of the employee until the year these amounts are actually received. It will also be provided that the income of the trustee will be exempt. This exemption for the trustee exists under present legislation for profit sharing plans and also for trustees under registered pension plans and the R.R.S.P's, registered retirement savings plans.

Under the legislation at present governing the taxation of profit sharing plans the employer may deduct the amounts he contributes into the plan without any limit. Here I am coming to the tax position of the employer. Since the present rules require the amount the employer contributes to be allocated among the employees and taxed each year, whether or not actually paid out, it is the same for tax purposes as any other remuneration. Accordingly there is at present no need to place any limit on the amount the employer contributes just as there is generally no limit on the amount the employer may deduct on account of salary or wages paid to employees.

On the other hand, under the new proposal the employee is to be permitted to defer tax

on the amounts allocated to him under the plan and accordingly there must be some limit on the amounts involved if revenue is to be protected and equality maintained with the other provisions in the act for tax deferral. For this reason the resolution proposes that the amount an employer may deduct for contribution into this new class of profit sharing plan plus his contribution, if any, under a registered pension plan shall not exceed \$1,500 per employee. The legislation proposed by this resolution will set out the conditions which have to be met in order that plans may become registered deferred profit sharing plans.

The main difference between the proposed registered deferred profit sharing plans and existing registered pension plans will be that there will be no employee contributions into the deferred profit sharing plans. It will be possible, of course, for employee savings plans to be operated in conjunction with deferred profit sharing plans but the employee will not be allowed to deduct amounts paid into such savings plans. In view of this important difference from employee pension plans, the rules governing the investment of the funds of deferred profit sharing plans and the rules concerning payment of the proceeds in a form other than as retirement income will not have to be as restrictive as for employees pension plans.

Mr. Benidickson: I am grateful for that explanation of the minister's plan as he conceives it at the moment. I think it is desirable that this procedure be encouraged. The last estimate I had as to progress along that line in Canada suggested to me that we do not seem to be moving along by any means as rapidly in this field of employer-employee co-operation and planning, particularly for retirement, as is the United States. A couple of years ago at least I think there were some 250,000 different businesses in the United States that had profit sharing plans and at the same time about two years ago there were in Canada known to us only about 250. Hence in proportion to population and so on we are falling somewhat behind.

I think the relative figures with respect to participation by employees about two years ago were two million employees covered in the United States and only about 100,000 employees in Canada. The minister may have more up to date figures. However, this is not as new a policy as some of us might have imagined. I myself was rather surprised to find that in the late 1880's—as long ago as that—there had been held in Paris an international conference of those who were interested and who were participating in profit sharing plans. Even in this country